

INDUSTRY OVERVIEW

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THE HEALTH AND WELLNESS MARKET IN CHINA

Overview of the Health and Wellness Market in China

The health and wellness market in China has been growing significantly in recent years. According to the Frost & Sullivan Report, the total healthcare expenditure in China exceeded RMB7.2 trillion in 2020, and is expected to reach RMB11.5 trillion in 2025, representing a CAGR of 9.7% from 2020 to 2025.

Such rapid development of the health and wellness market in China is driven by a number of key factors, including the increase in per capita disposable income, the aging of the population and the development of medical insurance policies. The disposable income of Chinese residents continued to increase in recent years, along with the trends of economic growth and urbanization, resulting in growing health awareness and more active management of health and wellness in China. At the same time, China's population aged 65 and above has been constantly growing, and is expected to increase at a CAGR of 5.4% from 2021 to 2025, accounting for 17.3% of the total population by 2025. Besides, the commercial medical insurance as a percentage of the total healthcare expenditure in China is expected to increase from 4.0% in 2020 to 8.7% in 2025, according to the Frost & Sullivan Report.

The health and wellness market primarily consists of the following segments: (i) the healthcare services market, (ii) the healthcare products and devices market, (iii) the consumer healthcare market, and (iv) the healthcare infrastructure market. By 2025, these segments in China are expected to reach RMB7.2 trillion, RMB4.2 trillion, RMB2.4 trillion and RMB0.6 trillion respectively, representing a CAGR of 10.9%, 10.3%, 26.8% and 24.1% from 2020 to 2025, according to the Frost & Sullivan Report.

China's healthcare providers consist of hospitals, primary healthcare institutions, and other healthcare institutions, among which hospitals play the most important role. There were 35,394 hospitals in China by the end of 2020, among them there were 12,252 Class I hospitals (35%), 10,404 Class II hospitals (29%), 2,996 Class III hospitals (8%) and 9,742 unrated hospitals (28%). The number of outpatient visits increases at a steady pace from 2016 to 2020. There are mainly two kinds of institutions accepting outpatient visits: hospitals and primary healthcare institutions. From 2016 to 2020, the total number of outpatients visit increases from 7,932 million to 7,741 million, with a CAGR of -0.6%. Between the two kinds, primary healthcare institutions take more outpatient visits: over 50% of outpatient visits happen in primary healthcare institutions. From 2016 to 2020, the CAGR of primary healthcare institutions is -1.5%. In 2021, China total healthcare expenditure is divided into four parts. Amongst, basic medical insurance expenditure takes 29.1%, out-of-pocket health expenditure occupies 27.7%, and commercial medical insurance expenditure only dominates 4.0%. With the reform of China medical insurance system, the percentage of commercial medical insurance expenditure is expected to increase to 8.7% of the total expenditure in 2025. Meanwhile, basic medical insurance expenditure is projected to slightly increase to 29.5% and out-of-pocket health expenditure would be 27.0%. Due to the increasing number of aged populations, higher disposable income and growing number of younger generations affected with diseases due to heavy workload and unhealthy life style, the total healthcare service spending in China grew at a CAGR of 15.1% from 2016 to 2020, and is expected to keep growing in the following years. Particularly, the CAGR of commercial medical insurance expenditure will be the greatest, with the CAGR from 2016 to 2020 being 30.7% and that from 2020 to 2025 being 28.0%.

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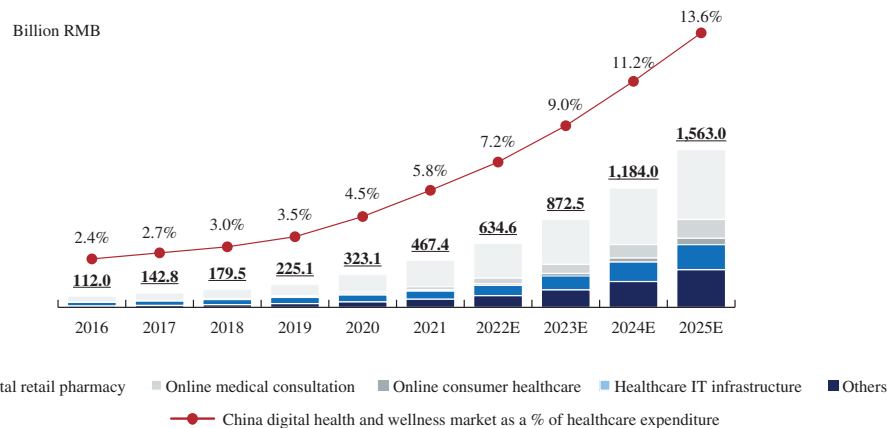
Overview of the Digital Health and Wellness Market in China

The advancement of digital technologies, such as big data, cloud storage and AI technologies, has substantially transformed the way healthcare products and services are provided. Chinese consumers are expanding their spending on online services. The advancement in technologies, coupled with Chinese consumers’ increasing spending on online services, resulted in the rapid digitalization of the health and wellness market in China, and shaped the foundation of the digital healthcare industry in China.

The digital health and wellness market in China reached RMB467.4 billion in 2021, and is expected to grow rapidly to reach RMB1.6 trillion in 2025, representing a CAGR of 35.2% from 2021 to 2025. The digital health and wellness market is mainly comprised of digital retail pharmacy, online medical consultation, online consumer healthcare and health IT infrastructure. The digital retail pharmacy market accounts for the largest segment within the digital health and wellness market by transaction volume, with a GMV of RMB262.6 billion in 2021, and is expected to reach a GMV of RMB692.3 billion in 2025, representing a CAGR of 27.4% from 2021 to 2025.

Breakdown of China Digital Health and Wellness Market by GMV, 2016-2025E

CAGR	Digital retail pharmacy	Online medical consultation	Online consumer healthcare	Healthcare IT infrastructure	Others	Total
2016-2021	34.7%	70.1%	53.7%	17.4%	43.6%	33.1%
2021-2025E	27.4%	55.7%	50.0%	32.7%	46.8%	35.2%



Source: Frost & Sullivan Report

In the backdrop of the COVID-19 pandemic, digital health and wellness market is currently ushering unprecedented growth opportunities. The digital health and wellness market as supplementary to the traditional health and wellness market has been widely recognized by the government and medical service users in China. The pandemic cultivated consumer habits, thus fostered stable digital health customers base. According to China Internet Network Information Center (CNNIC), until December of 2021, the number of online users of digital medical services is 0.298 billion with the penetration rate of 28.9%. The total number of internet hospital in China has surpassed 1,600 until June 2021 and the first half year of 2021 alone has increased 500 internet hospitals. The pandemic also prompts the government and policy support for digital health and wellness market. Multiple favorable policies have been introduced to support online diagnosis and treatment. Some restrictions on the digital health and wellness market also get relieved. These positive factors brought by COVID-19 pandemic effectively drive the medical resources to be optimized and allocated to remote areas, empowering the growth of digital health and wellness market.

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Growth Drivers of the Digital Health and Wellness Market in China

The rapid growth of the digital health and wellness market in China is primarily driven by the following factors:

- *Increasing demand for digital healthcare services.* The number of active mobile Internet users in China has been constantly growing in recent years, and had reached 10.3 billion as of December 2021. Meanwhile, Chinese consumers are becoming increasingly conscious of health and time, leading to a higher willingness to pay for convenient and professional digital healthcare services. At the same time, the relatively scarce and unevenly distributed medical resources in China call for accessible and convenient solutions for healthcare services, such as remote provision of medical services. Such unmet needs stimulate the growing market demand for digital healthcare services, such as drug express delivery, online medical consultation and online medical insurance reimbursement.
- *Advancement in technologies.* Technology advancement has significantly changed the way traditional services are provided in the health and wellness industry. AI technologies and big data are supporting a hierarchical diagnosis system while IoT and 5G are innovating health management methods in monitoring, prevention, diagnosis and after-care. Technologies advancement is improving the efficiency of the healthcare industry in China and the accuracy of medical diagnosis, and forming new business models.
- *Policy support.* Policies favorable to the digital health and wellness market in China have been promulgated in recent years. See “The Health and Wellness Market in China — Major favorable policies fostering the digital health and wellness market in China.”

Major Favorable Policies Fostering the Digital Health and Wellness Market in China

Favorable policies to the digital health and wellness industry have been promulgated in China in recent years, influencing and reshaping the digital health and wellness market in China. Such policies include, among others:

- *The “online-order and offline-delivery” model.* The “online-order and offline-delivery” model refers to the business model where consumers receive drugs ordered on Internet platforms through pick-up at offline pharmacies, or offline delivery from such pharmacies. According to the Frost & Sullivan Report, since 2015, Chinese government has been recognizing and promoting the “online-order and offline-delivery” model. For example, in 2019, Chinese National Health Commission issued “*the Outline of Promoting the High-quality Development of Health and Wellness Industry (2019-2022)*,” which permitted the delivery of prescription drugs ordered online to consumers by third-party delivery.
- *The establishment of the regulatory framework for online consultation.* The development of digital technologies has accelerated the progress of medical treatment and online consultation. According to the Frost & Sullivan Report, since 2018, favorable policies formulated by central and local governments fostered the online consultation market. For example, in 2018, the National Health Commission of China issued “Measures for the Administration of Internet Hospital”, which set out detailed requirement for market access, practice discipline and supervision of online medical services.

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- *The promotion of the development of DTP pharmacies.* According to Frost & Sullivan Report, China’s related policies have strongly promoted the development of DTP pharmacies in recent years. In particular, the Guidance on Establishing and Improving the National Medical Insurance Negotiating Drug Dual-Channel Management Mechanism (《關於建立完善國家醫保談判藥品雙通道管理機製的指導意見》) was promulgated in May 2021 to promote the sale of new drugs. New drugs can be reimbursed in public health insurance. As the policy has a relatively short history and doctors are still relatively unfamiliar with it, new drugs are still not available in outpatient pharmacies and patients often purchase them through retail pharmacies, creating favorable conditions for the operating of DTP Pharmacy.

5G Empowered Digital Healthcare

Consumers are becoming more comfortable with online consultations and digital retail pharmacies due to the continued impact of COVID-19, and the construction of new infrastructure such as 5G networks is conducive to further promoting the cultivation of new replicable and replicable 5G smart healthcare products. The Chinese government has consistently promoted the process of digitalization of healthcare. For example, the Ministry of Industry and Information Technology and the State Health and Welfare Commission announced in August 2021 the “5G+ Healthcare Application Pilot Project List”, covering various directions such as online consultation, online treatment and online healthcare management.

More standardized industry management

The quality of digital healthcare has always been a key concern for patients, and the achievement of goals such as traceability of the treatment process and the the online drug sales is conducive to the further expansion of the online healthcare services market in China. There are a number of policies in recent years have demonstrated the Chinese government’s protection of the regulated and sustainable development of the digital health and wellness market. For example, at the end of October 2021, NHC issued “the Announcement on the Public Consultation on the Rules for the Regulation of Internet Medical (Draft for Comments)” to ensure that digital health and wellness market enters a phase of regulated and high-quality development.

- *Prescription outflow.* Prescription outflow refers to a process that enables in-hospital prescription to be fulfilled by out-hospital channels. According to the Frost & Sullivan Report, the market of prescription outflow was RMB369.6 billion with a penetration rate of 25.5% in 2021 and is expected to reach RMB749.7 billion with a penetration rate of 40.0% in 2025. Such trend of prescription outflow is expected to boost online medical consultation and drug delivery business significantly.
- *The reimbursement of online medical service.* The approval of the online payment covered by the basic medical insurance fostered a favourable policy background for the reimbursement of online medical service, along with a series of policies promulgated by Chinese central and local governments. For example, in August 2019, Chinese National Health Commission issued policies such as “Guidance on Improving Policy for “*Internet + Medical*” Service Price and medical insurance payment,” which set out requirements for promoting the online payment covered by the basic medical insurance.

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Future Trends of the Digital Health and Wellness Market in China

The above-mentioned growth factors are expected to lead to rapid penetration of Chinese digital health and wellness market in the foreseeable future. The key trends of the digital health and wellness market in China are as follows:

- *The increase in the penetration rate of digital pharmacies.* The penetration rate of health products in online retail channels in online retail channels are expected to increase according to the Frost & Sullivan Report. The trend of digitalization reshaped the traditional pharmaceutical retail market with digital health and wellness products and service offerings, and enabled different types of digital pharmacies to flourish, addressing consumers’ demand for access to medical products and services that are expressly delivered, conveniently prepared, 24/7 accessible, individually tailored, and with user-friendly protection of privacy. Digital pharmacies are operated primarily under two business models including e-commerce and on-demand.
- *The empowerment of medical professionals and offline medical institutions by digitalization.* More medical professionals and offline medical institutions will provide healthcare products and services through online channels and platforms, which further facilitates consumers to switch to online medical services.
- *Advancement of the online chronic disease and healthcare management.* With the in-depth cooperation with hospitals and medical institutions, the online platforms for chronic disease and healthcare management are expected to improve treatment efficiency. Such online platforms will empower doctors by allowing them to reach a broader patient base, have efficient follow-up management of patients and convenient communication with patients.

THE DIGITAL RETAIL PHARMACY MARKET IN CHINA

Overview of the Digital Pharmacy Market

The healthcare products and devices market refers to the market of selling pharmaceutical products to medical institutions, retail pharmacies, other distributors and other manufacturers, which represents a significant component of the health and wellness market in China. The healthcare products and devices market has developed rapidly at a CAGR of more than 6.7% from 2016 to 2020, and 10.3% from 2020 to 2025, respectively, and is expected to exceed RMB4.2 trillion in 2025.

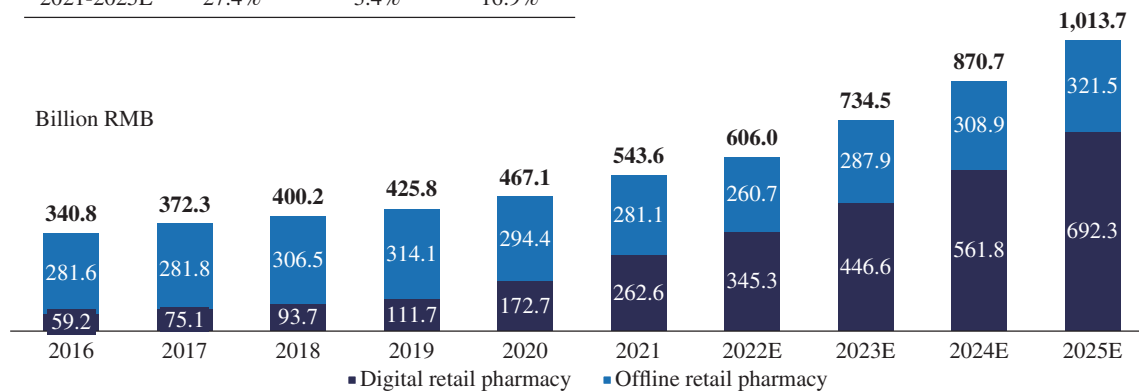
The retail pharmacy represents the place or platform can realize retail of medical products, which is composed of offline retail pharmacy and digital retail pharmacy. The digital retail pharmacy represents a pharmacy operating model which focuses more on the function of online drug sales, providing prescription services and realizing fast drug delivery compared to the traditional offline retail pharmacy model. It also provides value-added health management services for patients with chronic diseases. The digital retail pharmacies provide their products by home delivery and are mostly 24-hour open online pharmacies. The offline retail pharmacy represents a pharmacy operating model that mainly provides services of selling drugs and medical devices, occasionally providing disease diagnosis services and assisting in guiding the use of drugs. The patients need to pick-up in a pharmacy and only a small number of offline pharmacies provide 24-hour service.

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The retail pharmacy market accounts for a significant portion of the healthcare products and devices market. The size of the retail pharmacy market in China has rapidly expanded at a CAGR of more than 9.8% from 2016-2021, and 16.9% from 2021-2025, respectively, and is expected to exceed RMB1.0 trillion in 2025. The growth rate of the retail pharmacy market is the highest among all the segments in healthcare products and devices market, which is mainly due to the development of digital retail pharmacy market. Digital retail pharmacy market consists of pharmaceutical e-commerce business model and the on-demand digital pharmacy which adopts the online-order and offline-delivery model. The digital retail pharmacy market has grown rapidly at a CAGR of 34.7% from 2016 to 2021 and 27.4% from 2021 to 2025 respectively, and is expected to exceed RMB692.3 billion in 2025.

China Retail Pharmacy Market, 2016-2025E

CAGR	Digital retail pharmacy	Offline retail pharmacy	Total retail pharmacy
2016-2021	34.7%	0.0%	9.8%
2021-2025E	27.4%	3.4%	16.9%



Source: Frost & Sullivan Report

* Total retail pharmacy means digital retail pharmacy market and offline retail pharmacy market.

As online drug purchase is convenient and cost-effective, an increasing number of consumers choose to order pharmaceutical products online and receive delivery offline. To capitalize on the trend of online drugs purchase, retail pharmacies in China have gradually launched online business. The business model of retail pharmacy is evolving and experiencing the following three stages:

Core business model	Stage one: Traditional offline retail pharmacy	Stage two: Hybrid retail pharmacy	Stage three: Digital Pharmacy	
			Pharmaceutical e-commerce	On-demand digital pharmacy
	Offline pharmacy stores	Offline pharmacy stores combined with third-party online platforms	Mixture of online and offline business	Mixture of online and offline business
			Business activities and transactions between pharmacy and consumer are taken place on Internet.	Self-operated and third-party online platform with offline stores

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	Stage one: Traditional offline retail pharmacy	Stage two: Hybrid retail pharmacy	Stage three: Digital Pharmacy	
			Pharmaceutical e-commerce	On-demand digital pharmacy
Services available	Sales of pharmaceutical products, medical appliances and supplements; Face-to-face advice on the use of drugs or medical appliances		Combination of online diagnosis with drugs; Provision of value-added services for patients with chronic diseases; Offering online order and offline delivery services	
Store density and location	Mainly located near hospitals, sub-districts, business districts and residential districts.		Large-scale warehouses for inventory management	Optimized location selection based on AI algorithms for efficiency and coverage
Sales per unit area (per day* per square metre)	Approximately RMB45-90	Approximately RMB45-90	N.A.	Approximately RMB140-180
Inventory efficiency	Low	Low	High	High
Delivery mode	Pick-up from store	Pick-up from store and express delivery	Express delivery	Pick-up from store, On-demand express delivery
Management mode	Chain management	Chain management	Information management	Information management
Operation hours	Most are not 24/7	Most are not 24/7	24/7	24/7

Compared with traditional offline pharmacies, the on-demand digital pharmacies primarily have the following advantages:

- *Better customer experience.* Healthcare consumers continue to seek for high-quality health products and services that provide premium customer experience. Digital pharmacies are able to provide convenient, on-demand, customized healthcare product and service offerings, on a 24/7 basis, thus providing customers with improved consumption experience.
- *Less affected by the location.* Traditional pharmacies are mostly located in geographic locations with massive traffic, such as regions near hospitals, downtown areas and commercial districts. With the increasing rental cost of commercial properties, the rental cost of traditional pharmacies has been increasing accordingly. As digital pharmacies are often strategically located in areas where they can achieve optimal efficiency and coverage, and are operated online as well as offline, the performance of digital pharmacies are less affected by their locations and therefore are able to achieve high efficiency.
- *Higher operational efficiency.* Empowered by technologies and equipped with more intelligent operating systems in information management, supply chain management and inventory management, digital pharmacies are able to overcome the obstacles hindering the operations of traditional pharmacies, thus achieving higher operational efficiency, as evidenced by higher level of sales per unit area.

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However, the gross profit margin of digital retail pharmacy ranges from 20% to 30%, which is generally lower than the gross profit margin of traditional offline pharmacies, which ranges from 30% to 40%. This is because traditional offline pharmacies are generally located near hospitals and residential areas to meet the timely medicine usage demand of users within a specific scope. Moreover, after a long period of development, it has a stable customer base within a specific geographical area. Due to the geographical advantage and stable customer base, traditional offline pharmacies have stronger bargaining power. Compared with traditional offline retail pharmacies, the digital digital retail pharmacies have to adopt a more public pricing strategy to cover more customers.

Competitive Landscape in the Digital Retail Pharmacy Market in China

Key players in this market are major digital healthcare companies and retail pharmacies in China. The following diagram illustrates the competitive landscape of China’s digital retail pharmacy market by revenue in 2021:

Rank	Company Name	Revenue ⁽¹⁾ , Billion RMB	Market Share	Background Description	Operating History
1	Company A	26.2	10.0%	The company is a listed company. It has an integrated internet and medical healthcare layout relying on its core logistics system, and its widely arranged online and offline channels have connected the product manufactures with terminal users in China. The company presents a clear technology advantage in the digital retail pharmacy market and possesses profound strength in platform operation efficiency and diverse product portfolio.	It started healthcare business as a stand-alone business unit of its parent group in 2014; It launched online consultation services in 2017; It launched its online medical insurance payment in 2019.
2	Company B	17.1	6.5%	The company is a listed company. As one of the technological innovation-based enterprise, the company fully utilizes its natural endowment and position to drive the digital retail pharmacy market from an inherent medical e-commerce and online consultation towards a more extensive service ecosystem. To improve the drug accessibility and service quality, the company has established a one-stop service chain based on its online platform and self-operated pharmacy.	It acquired the right to operate online pharmaceutical business on an e-commerce platform in 2015; It launched new retail pharmaceutical service and launched ‘online drug purchase, delivery drug home’ service in 2018; It launched its online health insurance payment platform for chronic disease management in 2019; It launched its mobile APP to provide online healthcare services in 2020.

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Rank	Company Name	Revenue ⁽¹⁾ , Billion RMB	Market Share	Background Description	Operating History
3	Our Company	2.6	1.0%	We provide express digital healthcare services, including on-demand pharmaceutical retail, online medical consultation and chronic disease management, primarily with online-to-offline solutions.	We launched our mobile APP to provide drug delivery and comprehensive healthcare services in 2015; We planned the layout of smart pharmacies in Beijing and Shanghai in 2016; Our Hainan Internet Hospital obtained the Medical Institution Practicing License in Hainan and launched our online medical consultation service in 2019; We launched the innovative “DTP to Home” business by incorporating on-demand service onto DTP smart pharmacies in 2020.
4	Company C	2.2	0.8%	The company is a listed company. The company integrates pharmaceutical R&D, manufacturing, distribution and logistics as one and operates nationally especially has a deep root in the south China.	It established an integrated retail and chain operating system in 2007. It issued short-term financing, which was the first time financing towards public market in 2012. It becomes a company with both B2B/B2C certificates in 2016. It passed the evaluation from authority and expand the business to medical device in 2020.
5	Company D	2.1	0.8%	The company is not a listed company. The company provides online pharmacies, Internet hospitals, online consultation, chronic disease management and other services for users.	It launched its official website in 2011; Its wireless business department was established in 2013; It launched its mobile APP in 2014; It opened its first offline store in 2015.

Source: Frost & Sullivan Report

(1) Revenue refers to all revenue generated from online direct sales.

Overview and Competitive Landscape of DTP pharmacies in China

DTP pharmacy is a patient-centric provider of new specialty drugs and pharmacist service to better manage patients taking specialty medicines, and to better procure, store and dispense specialty medicines. Specialty medicines are high-value prescription medicines, usually innovative drugs for critical diseases such as cancer and autoimmune diseases.

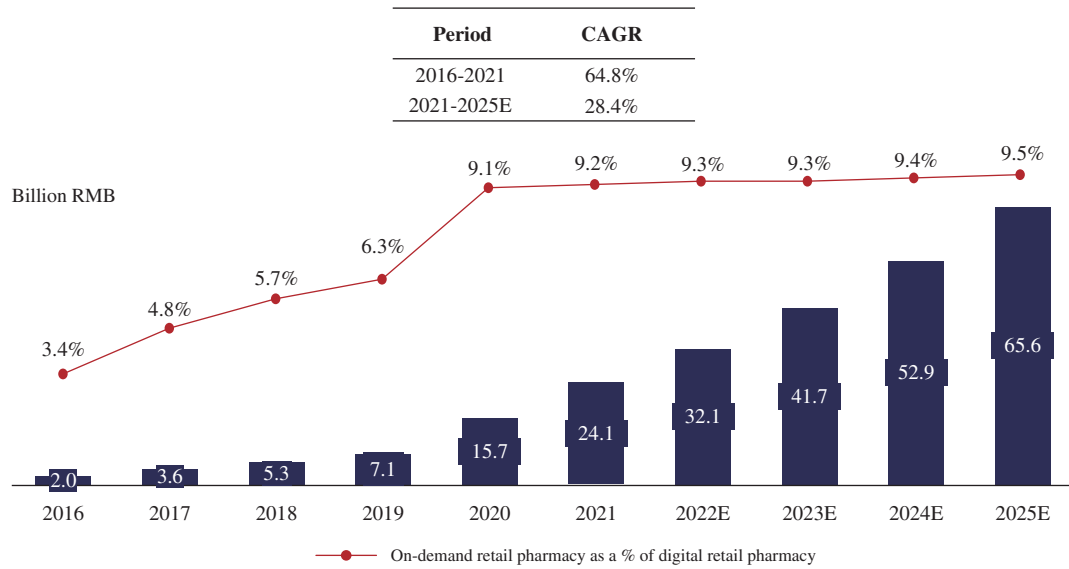
DTP is a new distribution channel of pharmaceutical products in China, which still in the exploratory stage with a relatively low market concentration. The main players in China’s DTP pharmacy market including three types, including traditional retail pharmacies, pharmaceutical commercial companies and digital retail pharmacies. Among them, traditional retail pharmacies have begun to focus on the DTP pharmacy with high-end prescription drugs, with the advantages of wide distribution of chain pharmacies, many types of cooperation between pharmaceutical industry enterprises, and rich experience in patient membership management. The pharmaceutical commercial company started from wholesale and retail integration of companies to transform to self-built DTP pharmacy, they have a broad foundation for cooperation between pharmaceutical industry enterprises, a strong hospital development market access capability and outstanding logistics capabilities. Digital retail pharmacies empower DTP formats through new technologies, innovate multi-dimensional services, and create smart DTP pharmacies.

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On-demand Digital Pharmacy Business

The market of on-demand digital pharmacy grew significantly from RMB2.0 billion in 2016 and expanded at a CAGR of 64.8% from 2016 to 2021, and is expected to reach RMB65.6 billion in 2025, representing a CAGR of 28.4%. Furthermore, it is expected that the proportion of on-demand digital pharmacy in the digital retail pharmacy market increased to 9.5% in 2025 from 9.2% in 2021. Currently, we are the largest player of China’s on-demand digital pharmacy market, with a market share of 6.8%.

China On-demand Digital Retail Pharmacy Market, 2016-2025E



Source: Frost & Sullivan Report

In general, the business model of on-demand digital pharmacy has the following advantages over pharmaceutical e-commerce:

- Timeliness and convenience.** Pharmaceutical e-commerce provides online stores supplied by large-scale warehouses, which features with the vast product categories and sufficient stock to satisfy customers’ various demand. Products are packed and shipped through systematic logistics network from warehouses. As the pharmaceutical e-commerce platforms rely on logistics for drug delivery, there is usually a time lag of one to two days between order placement and drug delivery, which cannot fulfil the demand of emergency drug delivery. On-demand digital pharmacy is a boosted business model that enables “online-order and offline-delivery”. Stores are evenly distributed throughout the commercial district with a large flow of people. Most of the on-demand digital pharmacies provide consumers with offline on-demand delivery service with professional delivery team equipped with tailored equipments for drug express. Products purchased online can be picked up or delivered offline within half an hour after online purchase. Compared to e-commerce platforms, on-demand digital pharmacy brings more conveniences and higher timeliness for customers who are in need of emergency medicines for sudden diseases. The on-demand pharmacies and offline outlets are usually equipped with pharmacists.
- Higher inventory efficiency.** Compared with pharmaceutical e-commerce platforms which rely on centralized warehouses to fulfil the user demands, on-demand digital pharmacies use scattered offline stores for dispensed storage. According to the Frost & Sullivan Report, the warehouse of pharmaceutical e-commerce platforms needs to maintain over 10,000 SKUs, while on-demand digital pharmacies only need to maintain 3,000-5,000 SKUs. Lower storage pressure in each store enables on-demand digital pharmacies to keep an overall higher inventory efficiency.

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The business model of on-demand digital pharmacy has sorts of entry barriers, including but not limited to: strong delivery capability, which enables the pharmacies to timely deliver medical products to users; the ability to integrate online and offline sources; the excellent supply chain management capability; a reliable brand recognition and quality service to attract users; and pharmaceutical products covered by medical insurance and corporate welfare.

Key players in this market are major digital healthcare companies and retail pharmacies in China. The following diagram illustrates the competitive landscape of China on-demand digital pharmacy by revenue in 2021:

Rank	Company Name	Revenue ⁽¹⁾ , Billion RMB	Background Description	Operating History
1	Our Company	1.6	We provide express digital healthcare services, including on-demand pharmaceutical retail, online medical consultation and chronic disease management, primarily with online-to-offline solutions.	We launched our mobile APP to provide drug delivery and comprehensive healthcare services in 2015; We planned the layout of smart pharmacies in Beijing and Shanghai in 2016; Our Hainan Internet Hospital obtained the Medical Institution Practicing License in Hainan and launched our online medical consultation service in 2019; We launched the innovative “DTP to Home” business by incorporating on-demand service onto DTP smart pharmacies in 2020.
2	Company E	1.3	The company is not listed. It is a large pharmacy chain that started as a traditional retail pharmacy, most of whose stores are mainly community pharmacies. With the wide application of information technology, it provides a full range of services to patients through its Internet hospital, including online consultation, online drug purchase, home delivery of drugs and other services.	It officially entered the field of e-commerce and expanded online channels in 2010; Its WeChat mall was officially launched in 2017.
3	Company F	1.2	The company is not listed. It is a subsidiary of a major Chinese pharmaceutical distribution company that leverages its parent company’s nationwide retail/distribution network to provide consumers with fast, convenient and immediate delivery of pharmaceutical retail services, with integrated online channels with the Internet.	It is essentially a business-to-customer online pharmacy and has built a retail + distribution business model since 2015.
4	Company G	0.9	The company is a listed company. It is a Sino-foreign joint venture that provides pharmaceutical and medical devices wholesale and retail products and services including pharmaceutical manufacturing, research and development. The company builds a national medical products logistic network and operates as nationwide general agent of many pharmaceuticals.	It starts the national retail pharmacy layout in 2003. It formed a new developing model in pharmaceutical B2C field by expanding its e-commerce business in 2011. Its Chinese herbal medicine B2C platform was launched in 2015. Its self owned APP was launched and become one of the main participants in the pharmaceutical O2O industry in 2016.

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Rank	Company Name	Revenue ⁽¹⁾ , Billion RMB	Background Description	Operating History
5	Company H	0.7	The company is not a listed company. It is a company built on the chain retail pharmacy business model, it focuses on the traditional Chinese medicine and western medicine. It has an advantage especially in tonic herbal field and cover all level needs.	It starts its cross-district chain operation mode in 1998. It expanded its business to upstream pharmaceutical manufacturing by merge and acquisition in 2006. It established franchise operation model in 2019.

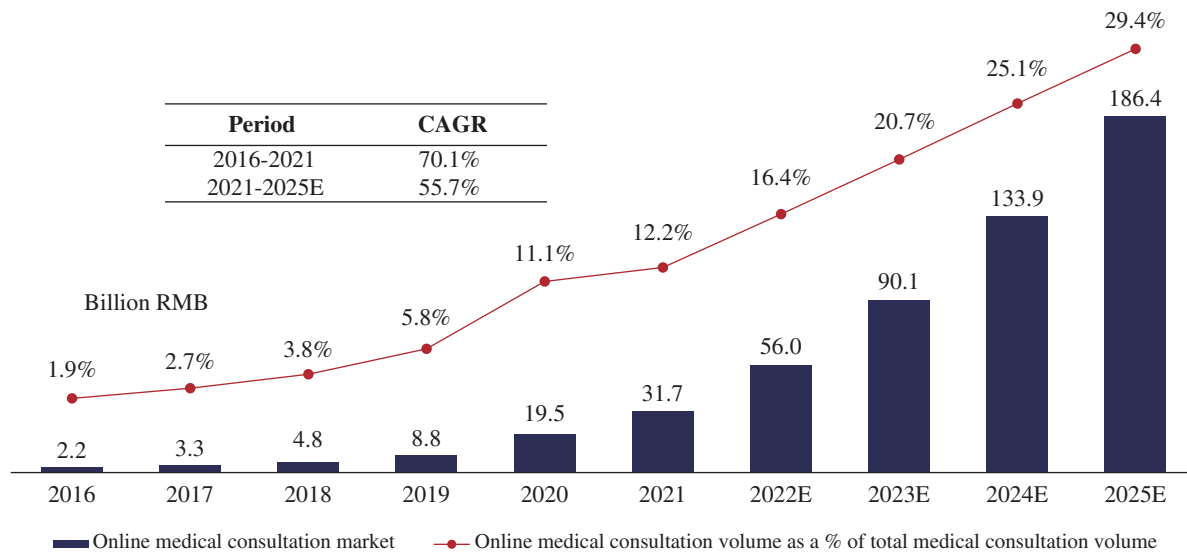
Source: Frost & Sullivan Report

(1) Revenue refers to self-operated on-demand business.

THE ONLINE MEDICAL CONSULTATION MARKET IN CHINA

Online medical consultation refers to healthcare consultation services such as general medical consultation, follow-up diagnosis and online treatment conducted through online platform. The development of new technologies such as big data, AI and 5G technologies have established consumer’s habit of using online medical consultation. Individuals’ health profiles can be better stored and analyzed online to allow more precise matching between patients and possible therapeutic options. The online healthcare services can collect more data to provide personalized therapeutic options to users. China’s online medical consultation market grew significantly at a CAGR of 70.1% from 2016 to 2021 and is expected to reach RMB186.4 billion in 2025.

Online Medical Consultation Market in China, 2016-2025E



Source: Frost & Sullivan Report

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With the continuous expansion of the digital health and wellness market and the advancement of Internet technologies, China’s online medical consultation market will integrate with digital retail pharmacy to form a closed-loop ecosystem to provide one-stop healthcare service. According to Frost & Sullivan Report, the key drivers of the future, online medical consultation market in China are:

- *Advancement in technologies that propel the transition from hospital-based standardized consultation to consumer-based personalized consultation.* With the advancement in relevant technologies, the online medical consultation industry is undergoing the transition from hospital-based services to consumer-based services. The pharmacy platforms will be deeply integrated with intelligent technologies and provide tailor-made healthcare services to match each patient’s demand and consumption capacities.
- *Greater participation of medical experts.* The coordination among commercial application, academia and research, and the cooperation among physicians have become a symbol of the popularization of digital health and wellness. Relying on the digital health and wellness platforms, deeper cooperation among medical experts, well-known physicians and medical expert groups may facilitate the improvement of the overall healthcare level of the society and the expansion of the healthcare market.
- *Inclusion into medical insurance.* The “Internet + medical insurance” is gradually becoming the mainstream of medical insurance payment. The integration of online medical consultation with medical insurance payment can help reduce the burden of medication for chronic disease patients. The behaviors of consultation and drug purchase online will become more frequent in the future, and the online medical consultation platform will generate greater social value.

Since online medical consultation is an important part of digital health and wellness market, digital retail pharmacies and digital healthcare providers are main types of players in the online consultation market. We are one of the top 10 players in online medical consultation market by online consultation volume reached 6.8 million in 2021 with a market share of 0.6%.

THE CHRONIC DISEASE MANAGEMENT MARKET IN CHINA

As the aging process of China’s population continues to accelerate, various chronic diseases significantly affect the health of Chinese people. According to the Frost & Sullivan Report, the occurrence of chronic diseases such as hypertension, podagra, diabetes, AIDS, chronic kidney disease and hepatitis increased from 2016 to 2025. The scale of the chronic disease expenditure in China is expected to expand significantly in the next five years and exceed RMB7.8 trillion by 2025, at a scale of three times larger than that of 2016. Chronic disease management refers to the establishment of an integrated system of intervention and management for chronic disease throughout different stages of the continuum of chronic disease care, ultimately strengthening disease control, preventing disease deterioration, and controlling the overall medical cost, it is a good channel for players in digital healthcare industry to acquire customers. According to the Frost & Sullivan Report, the development of chronic disease management market is driven by a number of factors, including the aging population, the increase of young chronic disease patients, and the growing health awareness, and almost all players in digital healthcare industry have laid out chronic disease management, resulting in a more fragmented chronic disease management market in China at present.

There are two major future trends of chronic disease management, including the digital management of chronic disease and personalized treatment. The medical experts can use advanced digital solutions to manage chronic diseases by monitoring patients’ health profiles and managing treatment outcomes throughout the chronic disease lifecycle. Meanwhile, by using digital management tools, medical professionals may provide users with health management suggestions through big data analytics. Furthermore, chronic disease management can closely combine with precision medicine, which gives patients a better treatment tailored to their own conditions. Personalized treatment plans can be made based on insights into user’s health profiles, backed by data analytics and AI technologies.

INDUSTRY OVERVIEW

SOURCE OF INDUSTRY INFORMATION

We have engaged Frost & Sullivan, an independent global market research and consulting company, to conduct an analysis and prepare an industry report on China health and wellness, healthcare service and Internet healthcare markets in this document. We incurred a total of RMB1,000,000 in fees and expenses for the preparation of the Frost & Sullivan Report. Frost & Sullivan prepared its report based on data released by government institutions and non-government organizations and its primary research.

Forecasts and assumptions from the Frost & Sullivan Report are inherently uncertain because of events that cannot be reasonably foreseen, including but not limited to the actions of government, individuals, third parties and competitors. Specific factors that could cause actual results to differ materially include but not limited to inherent risks, financial risks, labor risks, supply risks, regulatory risks and environmental factors in China health and wellness, healthcare service and Internet healthcare markets.

Except as otherwise noted, all of the data and forecasts contained in this section are derived from the Frost & Sullivan Report. We confirm that after taking reasonable care, there has been no adverse change in the market information since the date of the report prepared by Frost & Sullivan which may qualify, contradict or have an impact on the information set forth in this section in any material respect.